Testimony
of
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on
General Farm Commodities and Risk Management

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Good morning. Mr. Chairman, Members of the Committee, I appreciate the opportunity to appear before you this morning on behalf of the National Corn Growers Association (NCGA). I am Dee Vaughan, a corn, soybean, sorghum, and wheat producer from Dumas, Texas and am currently serving as President of NCGA.

Today, for a variety of factors, corn growers throughout the United States find themselves in a much more favorable commodity market than just two years ago; a stronger livestock industry, tremendous growth in ethanol production, increases in exports, and record production to meet increasing demand. Season average corn prices are projected to range $2.55 to $2.95 per bushel compared to $2.45 - $2.55 last year. Needless to say, it is a welcome and long overdue development. Although NCGA remains very concerned about the impact of chronic drought conditions in the western region of the Corn Belt and export opportunities for U.S. cattlemen, this year's accelerated planting season, overall, appears to have set the stage for another strong year for the corn industry.

According to the March 2004 Baseline Report prepared by the Food and Agriculture Policy and Research Institute, the per-acre market value of U.S. corn production has increased for the fourth straight year in 2003/04. Recent projections for the 2004/05 crop years from the Economic Research Service indicate an increase of 800,000 acres in harvested area to 71.9 million acres. With an estimated 84 percent of the corn crop planted as of May 9, 2004, growers have far exceeded the 5 year average planting pace of 63 percent for this time of the year. These figures clearly reflect farmers' response to the markets. Total corn utilization is expected to climb by 100 million bushels to a record level of 10,505 million bushels. Most of the increase is due to the growth in the food, seed, and industrial use. Corn for the production of ethanol, though, is the major driver behind this year's increase. Following a 20 percent gain in ethanol production in 2003-04, the ERS is now projecting an increase of 9 percent. Producers have responded to the strong market demand by investing in new ethanol plants to expand the capacity of the industry. It should also be noted that state incentives and the federal bioenergy program have been critical to this success story.

The outlook for corn production and prices is certainly encouraging but, corn growers and other producers continue to face a number of serious challenges and their share of uncertainty in the marketplace. In addition to significant increase costs for seed and pesticides, escalating energy prices are eroding the already slim profit margins for family farm operations through higher costs for critical inputs such as natural gas to operate irrigation equipment and diesel fuel to operate essential farm equipment. Just last year, the entire farm sector experienced a 30.8 percent increase in fuel expenses.

NCGA is particularly concerned by the 68 percent rise in the price of natural gas in 2003. A primary ingredient for fertilizer, it shows few signs of returning to the price levels of previous years. Nitrogen fertilizer is essential for efficient corn production. In the United States, nitrogen is applied to 96 percent of all corn acres. According to data from the University of Illinois, without nitrogen fertilizers, corn yields in that state would be reduced by one-third to one-half. However, the U.S. nitrogen producers on whom we depend are facing a serious crisis. Nitrogen fertilizers are produced using natural gas as the feedstock, accounting for 75-95 percent of the total cash cost of production. High natural gas prices are creating difficult cost-side pressures. At the same time, Russian exports are flooding world markets with fertilizer produced from natural gas obtained at government-set prices that are 30% below the delivered cost of producing the gas.

While corn growers enjoy a short term benefit from these exports, we well understand the long term downside. The U.S. nitrogen supply base has eroded to the point that imports now account for almost half of U.S. nitrogen supply. If this trend continues, American farmers will be forced to rely almost entirely on offshore supply, and on an infrastructure incapable of moving such a large portion of import supplies from the ports to our farmers on a timely basis. It is time for the Congress to address the inadequate domestic supply of natural gas and to secure in our trade negotiations with Russia a commitment to reform the commercially distortive natural gas pricing policies that are damaging our domestic nitrogen industry.

The bottom line is that due in large part to rising energy costs, overall production expenses for farmers and ranchers rose an estimated 6 percent in 2003, the largest increase since 1997. Consequently, NCGA remains steadfast in its support of comprehensive energy legislation and urges this Congress to send a bill to the President this year.

I do not need to remind this committee of the wide range of risks that farmers and ranchers confront year in and year out. As recently as 2002, the same year the Farm and Security and Rural Investment Act was enacted, farm income dropped by $13 billion.

Severe drought, depressed commodity markets, and the transition to a new a farm bill converged to create real financial pressures for many farmers and rural communities. Even today, uncertain prospects for U.S. beef production and exports have led the ERS to forecast net farm income to decline by $7.3 billion. If our number one customer, the U.S. livestock industry suffers, corn growers will be impacted as well. No farm policy can or should ensure a risk free environment for producers. NCGA believes the 2002 Farm Bill, as implemented, is providing a sound, responsible and effective safety net.

Fortunately, we now have a new counter-cyclical payment program that better protects our growers from severe financial losses when prices plummet. And this is precisely why we need to stay the course and resist reopening up the farm bill. Following several years of ad hoc economic assistance, we now have a farm policy that offers more predictability and fiscal discipline; one that limits assistance to producers to the times when aid is most needed. In fact, if corn prices remain at current levels, producers will be required to repay an estimated $696 million in advance counter cyclical payments that were received last fall. NCGA has already joined officials at the Farm Service Agency in communicating this announcement by reminding our members of this provision and their options for resolving the potential refund. We applaud the agency for the common sense manner in which they are handling this issue and taking the time to properly explain the procedures. You can well imagine that this is one letter that producers would rather not receive. But, this is how the program is supposed to work.

Another key component of the farm safety net is the marketing loan assistance program. First and foremost, though, this program helps to ensure the orderly marketing of grain throughout the year. The USDA is to be commended for making long overdue adjustments in county loan rates that more accurately reflect local market conditions. When NCGA brought to the department's attention problems regarding disparities in posted county prices or loan rates between county and state lines resulting from the adjustments, officials from the Farm Service Agency worked very cooperatively with our staff and growers to develop appropriate solutions. Given the shifts in livestock production and expansion of the ethanol industry, NCGA believes that further analysis by the FSA will be needed to ensure that the marketing loan program keeps pace with the changes in local markets as well as transportation and grain distribution systems.

As this committee reviews the effectiveness of current farm policy and its implementation, I cannot overemphasize the value of Congress staying the course. Growers must make long term capital investments and business decisions based on provisions and programs they expect will not be significantly altered over the life of the farm bill. Moreover, midcourse changes, including proposals to further restrict farm support payments are extremely divisive as well as inequitable. Imposing more restrictive payment limits will cut off support to producers when they most need assistance – at times of extremely low prices. NCGA continues to support the current limitations on direct and counter cyclical payments as well as marketing loan benefits.

Over the past year, NCGA has acknowledged the growing concerns in the Congress over rising federal budget deficits. Despite the fact that the Congressional Budget Office is projecting substantial reductions in spending for the farm safety net through Fiscal Year 2008, nearly $8 billion, we continue to hear and read criticism of U.S. farm programs as a significant contributor to the increase in spending. What we have found is that the criticism from the media, more often than not, reveals a fundamental lack of knowledge and understanding of modern production agriculture and the changes which have occurred in recent farm policy to achieve rural economic and environmental goals established by the Congress. Moreover, these same critics are ignoring a relatively small growth rate of 3.2 % in discretionary agriculture appropriations compared to 8.3 % for all non-defense bills.

In addition to providing a much needed market-oriented safety net, I must emphasize NCGA's interest in the other farm bill titles that assist producers wanting to move further down the value-added chain, promote investments for innovative rural economic development initiatives and advance renewable energy as well as biobased products. NCGA is therefore; concerned by reduced funding commitments for important programs such as value added agriculture product market development grants, and renewable energy initiatives. Similarly, we are also concerned by the slow progress toward implementing the Rural Business Investment Program and federal procurement of biobased products. These are two programs that offer considerable potential for attracting new venture capital to our rural communities and building markets for biomass industries. Just as growers have captured more value from their corn production by investing in ethanol plants, NCGA is optimistic that the new initiatives in the farm bill's rural development title can pave the way for producers to seek additional entrepreneurial opportunities and market niches.

One of the major reasons NCGA so strongly supports the 2002 Farm Bill is that a wide range of priorities are addressed in a comprehensive and balanced way. NCGA would like to thank the committee for its leadership in supporting a conservation title for the 2002 farm bill that demonstrated a significant commitment to conservation on private land. Growers appreciate the expanded Environmental Quality Incentives Program (EQIP) and the Wetlands Reserve Program and the creation of the Conservation Security Program (CSP). These programs are voluntary, incentive-based programs that help corn growers care for their land, while providing numerous environmental benefits.

NCGA believes CSP, if properly implemented, can provide a great opportunity to increase conservation and generate significant environmental results for farmers and the public. However, if implemented as proposed, most corn growers would not qualify for a CSP contract. The rule was not written for the average, commercial farmer though they could provide the greatest benefits. NCGA is particularly concerned with the definition of an agricultural operation and the ongoing funding debate. These should be resolved quickly so that the program can be implemented as intended.

NCGA also is concerned about the continuing struggle over funding sources for technical assistance. Unfortunately, the funding has eroded due to the interpretation of the farm bill and the provision in the 2003 Omnibus Appropriations bill. Last year the EQIP program was authorized at $700 million. The Appropriations Committee reduced it to

$695 million. Year-end funding was only $558 million because EQIP was required to contribute funds for technical assistance requirements of the Conservation Reserve Program and the Wetlands Reserve Program. NCGA firmly believes that each conservation program should pay for its own technical assistance.

NCGA also is generally concerned that conservation programs are not being implemented and managed with the farmer in mind. Common problems include the lack of outreach to growers, the domination of state technical committees by non-farm organizations or individuals, the failure to recognize the economic challenges growers face, and a focus on solving minor conservation or environmental problems. Most of these problems are encountered at the state level. NCGA would appreciate the committee's attention to these issues.

Mr Chairman, the success of the Farm Security and Rural Investment Act of 2002 can be evaluated in many different ways. For the American consumer, the investments we make in farm programs help to ensure the safest and most affordable supply of food anywhere in the world. To be sure, the entire food and agriculture sector from the farm gate to the table is a beneficiary of the farm bill and generates one sixth of our nation's gross domestic product. I have attempted to provide you and the committee an objective assessment of the farm bill and an overview of the corn industry's performance. While market forces and how producers respond to them ultimately determine our success, today's farm bill enables U.S. corn growers to make further advances in food production, renewable energy, and conservation practices that would not be possible otherwise. Our farm programs, in fact, have helped to create new opportunities that have resulted in additional benefits for both producers and the American taxpayer. Finally, I want to thank you for conducting this hearing. We appreciate your strong leadership and commitment to U.S. agriculture and ask for your continued support of this landmark legislation.